

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$1,764 from the prior year, resulting in excess fees of \$1,818 as of December 31, 2006. Revenues increased by \$1,963 from the prior year and expenditures increased by \$3,727.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Properly Distribute Seized Funds

Deposits:

The Sheriff's deposits as of December 15, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$532,259

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Properly Distribute Seized Funds

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 22, 2008

Revenues											
State Grants											\$ 37,473
State - Kentucky Law Enforcement Foundation Program Fund											16,725
State Fees For Services:											
Finance and Administration Cabinet										\$ 16,135	
Cabinet For Human Resources										30,524	46,659
Circuit Court Clerk:											
Fines and Fees Collected											100
Fiscal Court											64,613
County Clerk - Delinquent Taxes											5,787
Commission On Taxes Collected											203,761
Fees Collected For Services:											
Auto Inspections										6,995	
Accident and Police Reports										184	
Serving Papers										29,876	
Carrying Concealed Deadly Weapon Permits										9,785	46,840
Other:											
School Resouce Officer										41,277	
10 % Sheriff's Fee on Taxes										34,120	
Sheriff's Fees on Taxes										2,995	
Interest Earned on Taxes										1,714	
Postage Reimbursements										5,675	
Juror Expense Reimbursements										799	
Redeposited Checks										80	
Conveying Prisoners										15,055	
Miscellaneous										74	
Forfeitures										26,667	128,456
Interest Earned											425

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

<u>Revenues (Continued)</u>															
Borrowed Money:															
	State Advancement													\$ 110,000	
	Bank Note													40,000	\$ 150,000
Total Revenues														700,839	
<u>Expenditures</u>															
Operating Expenditures:															
Personnel Services-															
	Deputy's Gross Salaries													139,508	
	Office Gross Salaries													46,501	
	Dispatcher Gross Salaries													63,389	
	School Resource Officer Salary													30,196	
	Victim's Advocate Salary													25,710	
	KLEFPF Salaries													16,017	321,321
Employee Benefits-															
	Employer's Share Social Security														27,564
Contracted Services-															
	Accounting Services													2,208	
	Vehicle Maintenance and Repairs													13,739	
	Wrecker Services													200	16,147
Materials and Supplies-															
	Office Materials and Supplies													5,157	
	Uniforms													1,545	
	Copy Machine													1,063	
	Computer Services													1,784	9,549
Auto Expense-															
	Gasoline														30,476
Other Charges-															
	Training Services													1,848	
	Dues													486	
	Postage													8,726	
	Food For Jurors													597	
	Transporting Prisoners													9,677	

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

<u>Expenditures (Continued)</u>									
Operating Expenditures: (Continued)									
Other Charges - (Continued)									
Bond									
							\$	1,055	
CCDW									
								6,890	
Phone/TV									
								6,491	
Miscellaneous									
								944	
Promotional Products									
								1,001	\$ 37,715
Debt Service:									
State Advancement									
								110,000	
Notes									
								40,000	
Vehicle Leases									
								29,858	179,858
Total Expenditures									
									622,630
Net Revenues									
									78,209
Less: Statutory Maximum									
									73,996
Excess Fees									
									4,213
Less: Training Incentive Benefit									
									2,395
Balance Due Fiscal Court at Completion of Audit *									
									\$ 1,818

*Note – The Sheriff presented a check to the County Treasurer for the balance due the fiscal court on September 5, 2007.

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 15, 2006 the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$532,259

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Notes Payable

- A. On January 17, 2006, the Letcher County Sheriff borrowed \$20,000 from a local bank. The purpose of the note was for office expenses. The terms of the loan agreement require the Sheriff to pay the principal payment of \$20,000 plus interest at the rate of 7.25% per annum on the unpaid principal balance from January 17, 2006 until paid in full, maturing on April 17, 2006. The Sheriff paid the principal of \$20,000 on June 6, 2006. The principal balance was \$0 on December 31, 2006.
- B. On September 11, 2006, the Letcher County Sheriff borrowed \$20,000 from a local bank. The purpose of the note was for office expenses. The terms of the loan agreement require the Sheriff to pay the principal payment of \$20,000 plus interest at the rate of 8.25% per annum on the unpaid principal balance from September 11, 2006 until paid in full, maturing on December 11, 2006. The Sheriff paid the principal of \$20,000 on December 18, 2006. The principal balance was \$0 on December 31, 2006.

Note 5. Special Account

The Sheriff had a drug forfeiture account with a beginning balance of \$1,012. The Sheriff received forfeited funds of \$92,855. The Sheriff disbursed \$82,460 during calendar year 2006, leaving a balance of \$11,407 on December 31, 2006.

Note 6. Victim Advocate Funding

The Letcher County Sheriff's office received funding through the Office of the Attorney General, Frankfort, KY for a victim advocate staff position. The Sheriff's office received \$37,473 in reimbursements for salary and benefits for this staff position during calendar year 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated April 22, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Properly Distribute Seized Funds

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Letcher County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 22, 2008

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. Cash receipts by mail are not received and logged by someone who is independent of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. Also, the employee who records cash receipts prepares the deposits and completes the bank reconciliations. Good internal controls dictate that same employee should not be handling, recording and reconciling cash receipts. Lastly, authorized check signers are not independent of check preparation, cash receiving, and purchasing.

If the Sheriff can not segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this deficiency.

Sheriff's Response: None.

The Sheriff Should Properly Distribute Seized Funds

\$7,490 of funds confiscated during two separate drug related arrests was found missing in (or about) January 2006. The money was put in an evidence locker located in a closet while awaiting court order for distribution. When the Sheriff received a court order for distribution of funds in one of the cases, the funds for both cases were discovered as missing. The issue has been referred to the Kentucky State Police for investigation. After discovering the funds were missing, the Sheriff changed his procedures for storing funds awaiting court order for distribution. Those funds are now kept in a large safe in the Sheriff's private office. The Sheriff is the only person who has the combination to the large safe. Therefore, access to funds is restricted to the Sheriff and appears adequate to safeguard cash. We recommend the Sheriff maintain the controls he has put in place to assure the safeguard of confiscated funds. If the Sheriff recovers funds, he should forward 10% to the Commonwealth Attorney as noted in the court order of forfeiture and the remainder should be distributed to the Sheriff's forfeiture account.

Sheriff's Response: This was reported to the Kentucky State Policy Special Investigation (Unit) by Sheriff Webb. The investigation is still ongoing at this time. Any changes in the status of this case will be reported by Sheriff Webb.

